

# HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

## STANDARD APPLICATION - CERTIFICATE OF NEED PROGRAM

## Application Number 02-14

Applicant: Honolulu Open Medical Imging, LLC

Project Title: Establishment of an outpatient open MRI service

Project Address: 1010 South King Street, Honolulu, Hawaii

10.	TYPE OR ORGANIZATION: (Please che	ck all applicable)	REPLACEMENT PAGE			
F	Public		NEPEAGEWENT FAGE			
	Private	X				
	Non-profit		RECEIVED			
	<sup>-</sup> or-profit ndividual	X				
	Corporation	<del></del> •02	JUL 18 P4:27			
	Partnership	Office and the second s	- F AND			
L	imited Liability Corporation (LLC)	<u></u>	I <u>. H</u> LTH. PLNG.			
L	imited Liability Partnership (LLP)	<u> </u>	DEV. AGENCY			
	Other:	***************************************				
11. F	PROJECT LOCATION INFORMATION:					
В	3. Project will be located in:					
	State Senate District Number:	13				
	State House District Number:	25				
	County Council District Number:	6				
	Neighborhood Board District Number (O`ahu only):3_					
С	C. Primary Service Area(s) of Project: (Please check all applicable)					
	Statewide:					
	O`ahu-wide:					
	Honolulu:					
	O`ahu-wide:> Honolulu:> Windward O`ahu:> West O`ahu:> Maui County:					
	Maui County:					
	Kaua`i County:					
	Hawai`i County:	· ·				
12. D	OCUMENTATION (Please attach the follo	owing to your applicat	tion form):			
В	B. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent) Refer to Attachment A for the lease agreement.					
С	C. A listing of all other permits or approvals from other government bodies (federal, state, county)					
	that will be required before this proposal can be implemented (such as building permit, land use					
_	permit, etc.) Refer to Exhibit 1.					
D,	Your governing body: list by names, titles	s and address/phone	numbers Refer to Exhibit 1.			
<b>L</b> .	<ul> <li>If you have filed a Certification of Need A four items listed below. All others, please</li> </ul>	application this current provide the following	It calendar year, you may skip the g: Refer to Attachment B.			
	<ul> <li>Articles of Incorporation</li> </ul>	, provide the following	j. Helei to Attacillient B.			
	■ By-Laws					
	<ul> <li>Partnership Agreements</li> <li>Tax Key Number (project's loc</li> </ul>	otion) The tour lease	umbaria 0.4.0.0			
	<ul> <li>Tax Key Number (project's loc</li> </ul>	alion) ine tax key n	umber is 2-4-2-6			
Certificate of Ne July 2000	ed Standard Application		Page 2 of 5			

CON Application #02-14

Amended July 17, 2002

13. TYPE OF PROJECT. This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Service	Change in Beds
Inpatient Facility					
Outpatient Facility		Х		X	
Private Practice					

14.	TOTAL CAPITAL COST:	\$2,314,605	
-----	---------------------	-------------	--

15. BED CHANGES. Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

Not Applicable.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
			03
		& C	
		36	and grayers
TOTAL	_	25 NT	79 B

16. CHANGE OF SERVICE. If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please consult Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

This certificate of need application is for the development of outpatient MRI services using	
a high-field, open MRI.	

17.	PROJECT COSTS AND SOURCES OF FUNDS (For Capital Items Only)						
	B. List All Project Cost				AMOUNT:		
		1.	Land Acquisition			\$ 0	
		2.	Construction Cont	ract		413,680	
		3.	Fixed Equipment (	(includes shipping)		1,793,640	
		4.	Movable Equipme	nt		107,285	
		5.	Financing Costs			0	
		6.	Fair Market Value lease, rent, donati	of assets acquired by on, etc.		0	
		7.	Other: Working	capital		337,948	
				TOTAL PROJECT COST:		<u>\$2,652,553</u>	
	C.	C. Source and Method of Estimation					
		Describe how the cost estimates in Item "A" were made, including information and methods used:					
The construction contract is for improvements on the leased space and are based estimates from the lessor and a contractor. The cost of the equipment (fixed a movable) and shipping is based on quotes from the equipment manufacturer.					pace and are	based on	
					ed and		
					<u>equipmen</u>	ment manufacturer.	
	D. Source of Funds				AMOUNT:		
		1.	Cash				
	2. State Appropriations		tions				
		3.	Other Grant	₹ DEA YEENCK SI HITH BING			
		4.	Fund Drive	EE: 64 Z-70° ZO.			
		5.	Debt	CC. UV C HII CU.		\$2,252,553	
		6.	Other: _Equity of	BECE notification		400,000	

**TOTAL SOURCE OF FUNDS:** 

400,000

\$2,652,553

Honolulu Open Medical Imaging Outpatient MRI Services Certificate of Need Application



- 9. IMPLEMENTATION SCHEDULE: Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:
  - a) Date of site control for the proposed project, Site control for the proposed project was obtained on March 25, 2002
  - b) Dates by which other government approvals/permits will be applied for and received,

    The Certificate of Need application will be submitted by July 2002 and the building permit will be applied for in September 2002. The process to obtain Medicare and Medicaid certification will begin in September 2002.
  - c) Dates by which financing is assured for the project, Financing has already been obtain for the project.
  - d) Date construction will commence, The renovation of the leased space will begin in November 2002.
  - e) Length of construction period,

    The renovation period is expected to take 2 to 3 months.
  - f) Date of completion of the project, and The completion of the project is expected to be in March 2003.
  - g) Date of commencement of operation.

    Operations are expected to begin in April 2003.

702 JUL 18 P4:27

REPLACEMENT PACE

10. CEIVED EXECUTIVE SUMMARY: Please present a brief summary of your project. In addition, provide a description of how your project meets each of the Certificate of Need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

L 18 P4:27

ILTH. PLWG. V. AGENCY

- a) Relationship to the Hawai`i Health Performance Plan (H2P2), also known as the State of Hawai`i Health Services and Facilities Plan
- b) Need and Accessibility
- c) Quality of Service/Care
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- e) Relationship to the Existing Health Care System
- f) Availability of Resources

Honolulu Open Medical Imaging LLC (HOMI) is a limited liability company organized in the State of Hawaii. The members of HOMI are Straub Imaging Services, Inc. (Straub Imaging) and Medical Development Services, LLC (MD Services). Straub Imaging is a subsidiary of Straub Clinic and Hospital which is a part of Hawaii Pacific Health that also includes Kapi'olani Medical Center for Women and Children, Kapi'olani Medical Center at Pali Momi and Wilcox Memorial Hospital. Straub Imaging provides MRI, computed tomography, x-ray, ultrasound, nuclear imaging and fluoroscopy services to the community and is the primary provider of such services to Straub Clinic and Hospital. MD Services is a California company that has developed, operated and managed outpatient MRI services on the West Coast since 1999. MD Services has created and operated six radiology/imaging facilities, both hospital-based and outpatient. MD Services is dedicated to the development and operation of medical imaging centers and providing consulting and management services to owners of existing medical facilities. The principals of MD Services have over thirty years experience in medical development, acquisition and operations. MD Services' projects include hospital-based and outpatient operations including high field and open MRI systems, positron emission tomography, multimodality centers and CT and electron beam scanning. A management committee comprised of three representatives from Straub Imaging and three representatives from MD Services will operate HOMI. The management committee will make all management and operational decisions based on a majority vote of the committee members.

MD Services and Straub Imaging believe that Hawaii needs additional MRI services as the current waiting period for a non-emergent MRI service can be one to three weeks long depending on the MRI procedure to be performed. Based on calls made to the hospital-based MRI units in the Honolulu area, the waiting period for a non-emergent MRI procedure can be from one to three weeks depending on the procedure to be performed. The waiting period for MRI procedures that are more complicated and take more time to complete is generally longer than the less complicated procedures. The waiting period depends on the volume and type of procedures that are already scheduled and the volume and type of procedures requested to be

scheduled. MD Services and Straub Imaging also believe that outpatient MRI services are needed as all of the current MRI services are hospital-based units. Even with the Yeoh & Muranaka outpatient MRI CON application that was approved late in 2001, MD Services and Straub Imaging believe that an additional outpatient facility is needed as the demand for services far exceeds the available supply, particularly as MRI services become a more commonly used diagnostic tool by physicians. Therefore, MD Services and Straub Imaging, together as HOMI, are submitting an application to seek approval from the State Health Planning and Development Agency (SHPDA) to develop and operate an outpatient MRI facility that will provide high field, open MRI services.

The outpatient facility will be located at 1010 S. King Street in the Medical Arts Building that is across from Thomas Square, McKinley High School and the Neil Blaisdell Center. HOMI has a signed offer to lease from the lessor for the space. The equipment that will be used is a high field, open MRI from Hitachi (Altaire model). MD Services and Straub Imaging will be contributing equity into the development of the facility and the remaining cost will be financed through long-term financing. The financing has already been arranged through DVI Financial Services, Inc.

The facility will be operated and managed by MD Services based on its experiences in developing, operating and managing facilities on the West Coast. An operating agreement will be finalized between MD Services and Straub Imaging Services. MD Services will provide management and oversight and the support services needed to operate the facility including accounting and human resources. As MD Services has experience in operating and managing MRI facilities, its policies and procedures will be utilized to provide quality patient services in a well-maintained and safe environment. HOMI will have a professional services agreement with Straub Clinic and Hospital to provide the professional imaging services by physicians licensed to practice in the State of Hawaii and qualified to provide diagnostic radiology interpretative services of MRI and x-ray procedures. Draft copies of the operating agreement, administrative services agreement and professional services agreement are provided at Attachment D. The agreements will be finalized and signed upon approval of this Certificate of Need application. A letter of intent signed by both parties is provided at Attachment E.

a) Relationship to the Hawai'i Health Performance Plan (H2P2), also knowed as the State of Hawai'i Health Services and Facilities Plan

The development of the outpatient MRI facility fits well with H2P2. The main objectives of H2P2 include:

- Having a system that is comprehensive, cost-effective, well coordinated and responsive to community needs
- Increasing access to quality care in a cost-effective manner in various community settings

°02

The development of the outpatient MRI facility will enhance the existing health care RECEIVE delivery system by providing patients with access to diagnostic services that will assist physicians with the proper treatment and care of their patients. Currently, the waiting period for non-emergent MRI services can be several weeks. Additional MRI 18 Paservices will improve access to such services that, in turn, will improve the ability of the physicians to treat their patients. Access to services will not only improve the ST. HLTH. PUNiquality of care provided to patients, access will also reduce the cost of health care as & DEV. AGENOthe optimal diagnostic service will be provided instead of less optimal services which could result in the need for multiple diagnostic procedures. More timely diagnosis also means more timely treatment before the patient's condition worsens which generally results in higher costs. Outpatient MRI services are cost-effective as the cost to provide the services is lower than a hospital-based unit due to the lower capital and operating costs. The location of the facility is highly accessible by patients as the facility is only one block from Straub Clinic and Hospital's main facility and within a 10 mile radius of several other major hospitals on Oahu.

#### b) Need and Accessibility

The need for additional MRI services is evidenced by the waiting periods for access to such services. The number of procedures performed by each of the existing MRI units on Oahu exceeds the minimum required per H2P2 with the exception of the pediatric unit at Kapi'olani Medical Center for Women and Children. That unit was developed specifically to meet the needs of the pediatric patients. The estimated deficit between the demand and supply of MRI services is far in excess of the 1,500 procedures per MRI unit required by H2P2. The addition of the outpatient MRI facility will not likely reduce the number of procedures already performed at the existing units as the outpatient MRI facility will be serving the backlog that currently exists. It is anticipated that the outpatient facility will exceed the minimum 1,500 procedures in its first year of operation.

The services will be available to all patients in Hawaii. Due to its location and the concentration of the population of Oahu, it is anticipated that the majority of the patients will be from Oahu. The facility is centrally located in Honolulu and in close proximity to the major Honolulu hospitals including The Queen's Medical Center, Kuakini Medical Center, Rehabilitation Hospital of the Pacific and St. Francis -Liliha. The facility is also only one block from Straub Clinic and Hospital and is located in a medical office building. Access will be possible by car as well as public transportation.

### c) Quality of Service/Care

MD Services has experience in operating and managing MRI facilities on the West Coast and will use that experience in operating a quality facility in Hawaii. The policies and procedures that have been established by MD Services will be used in Hawaii to ensure that quality services are provided to patients in a well-maintained and safe environment. The MRI services will be provided by trained and qualified personnel and the professional radiology services will be provided by physicians from Straub Clinic and Hospital. The facility will screen each patient to ensure that the MRI procedures are proper given the patient's condition.

d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

The cost to develop the outpatient facility is estimated to be \$2,652,553 which includes the cost to renovate the leased space, purchase the equipment and software and provide for initial working capital. MD Services and Straub Imaging will provide \$400,000 of the cost through capital contributions. The remaining cost will be financed through long-term financing.

HOMI is expected to have net operating losses (\$150,357) in the first year due to start-up costs. Cash flow, however, is expected to be positive which means that operations will be able to provide for the payment of operating costs as well as payment on the debt. Operations are expected to be profitable from the second year as well as provide for positive cash flow.

e) Relationship to the Existing Health Care System

The outpatient MRI services will assist in filling the gap for MRI services in the existing health care delivery system as there is currently a waiting period for MRI services. The outpatient facility will give patients the option to obtain their MRI services in an outpatient setting rather than at a hospital. The addition of the services will improve the availability and accessibility of quality MRI services in Hawaii.

f) Availability of Resources

HOMI has the physical space for the facility at 1010 S. King Street and has selected the Hitachi Altaire as the equipment to be used. The financial resources to develop the facility have also been obtained through equity contributions from MD Services and Straub Imaging and long-term financing from DVI Financial Services. Emphasis will be placed on hiring individuals from Hawaii with the proper qualifications and experience and physicians from Straub Clinic and Hospital will be utilized to provide the professional radiology services. HOMI has in place all of the resources needed to develop and operate the outpatient MRI facility.

RECEIVED

702 JUL 18 P4:27

ST. HILTH, PLNG.
& DEV. AGENCY